



To: Members of the Investment Committee
 California Public Employees' Retirement System

From: Pension Consulting Alliance, Inc. (PCA)

Date: September 15, 2008

Subject: AIM Performance through June 30, 2008

PCA has received and reviewed Wilshire's Second Quarter 2008 Executive Summary of CalPERS' Investment Performance as it relates to the Alternative Investment Management (AIM) Program. The following items should be considered in your assessment of AIM's performance:

- In an illiquid asset class populated with ten-year partnerships, longer term results are more significant than those of a shorter duration.
- AIM's percentage asset allocation relative to its target and range was discussed at the August Investment Committee meeting. Staff and PCA are committed to submitting a more holistic proposal on the subject to the investment policy sub-committee later this year.
- During the past twelve months, public markets have been volatile and credit availability has been severely curtailed. As a result, all forms of private equity buyout transactions have suffered. Mega buyouts, which make up a large component of the AIM portfolio, have suffered the most. As mentioned previously, these conditions have and will likely continue to negatively impact AIM performance. Despite this, AIM's 1, 3, 5, and 10 year performance exceeded its Policy Index.
- Staff has proposed, and PCA and Wilshire have concurred, that it would be more meaningful to compare AIM's results to the Long-Term Performance Objective (CalPERS Custom Wilshire 2500 Index plus 300 bps) for reporting purposes. The Short-Term Performance Objective (Venture Economics young fund median returns which are used in personnel evaluations) has been used historically in these reports. If this change had been implemented in Wilshire's Second Quarter 2008 Report, it would have appeared as follows:

		<u>Year</u>			
	<u>Qtr</u>	<u>1</u>	<u>3</u>	<u>5</u>	<u>10</u>
AIM Program	1.8%	19.6%	20.6%	19.4%	12.1%
Long-Term Policy	2.1	(6.7%)	9.8%	13.4%	8.9%